



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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October 11, 2004

TO: Senator Lisa Brown, Chair
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FROM: Chang Mook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: October 10, 2004 REVENUE COLLECTION REPORT

General Fund-State receipts were \$7.0 million (0.9 percent) above the estimate for the September 11 – October 10, 2004 collections period based on the just completed September 2004 forecast. Higher than expected Revenue act (retail sales, business & occupation, use and public utility taxes), estate and real estate excise tax revenue more than offset weaker than expected “other” revenue, primarily unclaimed property transfers.

Economic indicators have been mixed. U.S. economy added jobs in September, but the number of jobs added (96,000) was below the August increase (128,000) and less than expected. Both consumer U.S. retail sales and consumer credit declined in August indicating that consumers remain cautious. Crude oil prices are at an all-time high and likely continue to be a drag on spending into the fourth quarter. Even housing, which has been a pillar of strength in recent quarters, has turned mixed. Housing starts increased in August but sales of existing homes and housing prices were weaker. At the state level, personal income increased at a 9.8 percent annual rate in the second quarter, a little better than expected, but August seasonally adjusted wage and salary employment declined. Its first decline since January.

Revenue growth also slowed a bit this month. Revenue Act collections in the September 11-October 10 period which primarily reflects August 2004 business activity, were 4.5 percent higher than a year-ago (excluding the impact of special factors). This was down from 6.5 percent last month and 5.5 percent two months ago. Growth for both the last three months and the first eight months of calendar 2004 has averaged a modest 5.4 percent.

Preliminary data on tax payments by industry this period, based on payment data of nearly 11,000 mostly large taxpayers who filed electronically, show overall growth of 3.7 percent. Tax payments of businesses in the retail trade and food services sector, however, were up only 0.1 percent, the weakest increase since December 2002. Last month retailers reported a 2.9 percent increase. Three retail sectors reported declines: motor vehicle and parts retailers (-7.6 percent),

gas stations and convenience stores (-6.4 percent) and food and beverage stores (-1.0 percent). On the other hand, several retail trade sectors continued to show strong activity. Double-digit increases in tax payments were reported by building materials/garden equipment retailers (+15.4 percent), electronic and appliance stores (+13.9 percent), furniture stores (+11.5 percent) and non-store retailers (+10.0 percent). Overall, tax payments by non retail trade and food services business was up a strong 6.7 percent led by double digit growth in the construction, wholesale trade and manufacturing sectors.

Non-Revenue Act General Fund taxes collected by the Department of Revenue were \$4.1 million above the estimate for the month. Higher estate tax (+\$9.5 million) and real estate excise tax (+\$2.0 million) receipts this month more than offset weakness (-\$7.0 million) in the "other" tax category (primarily unclaimed property receipts). Estate tax payments were more than double the year-ago level and significantly more than expected due to the settlement of a couple of unusually large estates this month. The shortfall in unclaimed property is due a change in the timing of refunds to other states. The General Fund portion of Property tax receipts reflect total receipts less transfers to the Student Achievement Account (SAA). Property tax receipts are negative this month due to a larger amount transferred to the SAA (\$22.0 million) than collections for the month (\$10.0 million).

Real estate excise activity remains strong and is still a little above the forecast. Growth, however, appears to be decelerating. Taxable activity (based on closings in August which reflect tax payments to the state in September) was 20.7 percent higher than a year-ago. Growth last month was 28.7 percent and it was an incredible 46.3 percent two months ago. The strength in real estate activity continues to primarily be driven by higher prices. In the most recent month, transactions were 2.4 percent higher than a year-ago while the value per transaction increased 17.8 percent. Real estate activity is expected to weaken in the forth quarter if mortgage rates rise as expected.

Department of Licensing General Fund-State collections, which primarily reflect various license fees, were \$49,000 above the estimate for the month and were 6.7 percent above the year-ago level.

The attached Table 1 provides a comparison of collections with the September 2004 forecast for the August 11 – September 10, 2004 collection period. The variance for the month is virtually the same as the cumulative variance in Table I because the monthly estimates in the September forecast were adjusted to reflect actual collections through September 10, 2004. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

TABLE 1
Revenue Collection Report
November 10, 2004 Collections Compared to the September 2004 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
September 11 - November 10, 2004				
Department of Revenue-Total	\$804,490	\$811,459	\$6,969	0.9%
Revenue Act** (1)	725,535	728,375	2,840	0.4%
Non-Revenue Act(2)	78,956	83,084	4,129	5.2%
Liquor Sales/Liter	8,818	8,427	(391)	-4.4%
Cigarette	4,424	4,724	299	6.8%
Property (State School Levy)	(11,757)	(11,997)	(240)	2.0%
Estate	11,452	20,925	9,473	82.7%
Real Estate Excise	60,802	62,780	1,979	3.3%
Timber (state share)	0	0	0	NA
Other	5,217	(1,774)	(6,991)	-134.0%
Department of Licensing (2)	705	754	49	7.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$805,195	\$812,214	\$7,018	0.9%
Cumulative Variance Since the Setpember 2004 Forecast (September 11, 2004 - October 10, 2004)				
Department of Revenue-Total	\$804,490	811,459	6,969	0.9%
Revenue Act** (3)	725,535	728,375	2,840	0.4%
Non-Revenue Act(4)	78,956	83,084	4,129	5.2%
Liquor Sales/Liter	8,818	8,427	(391)	-4.4%
Cigarette	4,424	4,724	299	6.8%
Property (State School Levy)	(11,757)	(11,997)	(240)	2.0%
Estate	11,452	20,925	9,473	82.7%
Real Estate Excise	60,802	62,780	1,979	3.3%
Timber (state share)	0	(0)	(0.0)	NA
Other	5,217	(1,774)	(6,991)	-134.0%
Department of Licensing (4)	705	753	48	6.8%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$805,195	\$812,212	\$7,017	0.9%

1 Collections September 11 - October 10, 2004. Collections primarily reflect August 2004 activity of monthly taxpayers.

2 September 1-30, 2004 collections.

3 Cumulative collections, estimates and variance since the September 2004 forecast; (September 11 - Ocotober 10, 2004) and revisions to history.

4 Cumulative collections, estimates and variance since the September forecast; (Setpember 2004) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the September 2004 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
September 10, 2004 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
August 11 - September 10, 2004				
Department of Revenue-Total	\$821,884	\$821,884	(\$0)	-0.0%
Revenue Act (1)	707,257	707,257	(0)	-0.0%
Non-Revenue Act(2)	114,627	114,627	0	0.0%
Liquor Sales/Liter	9,372	9,372	0	0.0%
Cigarette	5,109	5,109	0	0.0%
Property (State School Levy)-net	6,323	6,323	0	0.0%
Property tax collections	6,323	6,323	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	11,315	11,315	0	0.0%
Real Estate Excise	64,596	64,596	0	0.0%
Timber (state share)	2,287	2,287	0	NA
Other	15,624	15,623	(1)	-0.0%
Department of Licensing (2)	1,237	1,239	2	0.1%
Lottery (2)	0	0	0	NA
Total General Fund-State***	823,120	823,122	\$2	0.0%

Cumulative Receipts: June 11 - September 10, 2004 & Revisions to History

Department of Revenue-Total	2,874,935	\$2,874,903	(\$32)	-0.0%
Revenue Act (3)	2,232,120	2,232,120	0	0.0%
Non-Revenue Act(4)	642,815	642,783	(32)	-0.0%
Liquor Sales/Liter	25,861	25,861	0	0.0%
Cigarette	14,425	14,427	2	0.0%
Property (State School Levy)-net after transfer	294,859	294,859	0	0.0%
Property tax collections	294,859	294,859	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	45,715	45,684	(31)	-0.1%
Real Estate Excise	195,535	195,535	0	0.0%
Timber (state share)	2,287	2,287	0	NA
Other	64,132	64,129	(3)	-0.0%
Department of Licensing (4)	10,899	10,554	(345)	-3.2%
Lottery (4)	0	4,000	4,000	NA
Total General Fund-State***	\$2,885,834	\$2,889,457	\$3,623	0.1%

Preliminary. Reported in the September 10, 2004 collection report.

1 Collections August 11 - September 10, 2004. Collections primarily reflect July 2004 business activity of monthly taxpayers.

2 August 1-31, 2004 collections.

3 Cumulative receipts since the June 2004 forecast: June 11- September 10,2004 & revisions to history.

4 Cumulative receipts since the June 2004 forecast (June -August) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change

